

Unaffordable Housing and Political Kickbacks Rocked the American Economy



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Misguided Government Policies Directly Led to Financial Crisis

“The economic earthquake that shook the world financial markets and bankrupted seemingly invulnerable multi-national corporations exposed perilous fault lines of the federal government's own creation...Now that the Obama Administration's comprehensive regulatory reform proposals are making their way through Congress, the time has come to identify the root causes of the most recent economic downturn...the economic crisis we are experiencing is directly tied to an over-inflated housing bubble wherein mortgage lenders made reckless, high-risk loans. These loans were given in record number to over-extended, under-qualified borrowers to satisfy an increasingly aggressive government drive for home ownership. Why the lenders adopted such counterintuitive and irresponsible business practices is the critical question. The answer reveals the disastrous folly of government intervention in the housing market spanning more than three quarters of a century.”

Fannie-Freddie the Original “Too Big Too Fail”

“To secure affordable housing, Congress created a new Government Sponsored Enterprise (GSE) known as the Federal National Mortgage Association (Fannie Mae) during the Great Depression to purchase and securitize home mortgages and promotes greater liquidity in the mortgage market...as the market for secondary mortgages grew, Fannie Mae and Freddie Mac nearly achieved monopoly results thanks to numerous competitive advantages guaranteed through their unique relationship with the federal government. Among these advantages were government-backed lines of credit equal to a whopping \$2.25 billion and a corollary market reputation that led investors to believe the GSEs were too big to fail. This inflated investor confidence and exclusive government protection resulted in an unnatural expansion of Fannie Mae and Freddie Mac's market dominance, and by the time the 1990s rolled around, the corporations together held more than three quarters of the secondary market for prime mortgages.”

Fannie-Freddie's Unnatural Competitive Advantage Created Monopoly on Mortgage Market

“The GSEs were aided immensely by the federal government because Congress charged Fannie Mae and Freddie Mac with keeping the secondary mortgage market liquid and increasing the availability of affordable housing. No other private companies could borrow money at such an affordable rate. Private debt markets were willing to lend the GSEs money at an interest rate not much higher than the relatively risk-free rate they charged the U.S. government itself.”

Home Ownership Push About Political Gain

“Along the way, Congress continued to impose requirements on Fannie Mae and Freddie Mac to guarantee affordable housing opportunities to more and more Americans, including those whose credit ratings and annual income could not sustain a traditional mortgage. Under increased pressure to lower underwriting standards and to meet congressional mandates for loans to low-income families, the GSEs fell victim to successive administrations' campaign promises to increase home ownership regardless of the individual or systemic risk.”

Politicization of Mortgages Reached Zenith in Clinton Administration

“The politicization of mortgage lending reached its zenith during the Clinton Administration through major alterations of the Community Reinvestment Act of 1977,' a piece of legislation originally passed to prevent banks from discriminating against otherwise credit-worthy borrowers in lower-income neighborhoods. The Clinton-era policies emphasized, on the other hand, performance-based standards of evaluation that tied bank ratings to the volume rather than the fairness of the banks' mortgage lending." As subprime lending increased to meet the Clinton Administration's standards, so did the pressure on Fannie Mae and Freddie Mac to purchase those loans on the secondary market to promote liquidity, regardless of the loans' quality and sustainability." This "affordable housing" scheme inevitably started a mortgage bonanza, just as it was designed to do....By the time the myth of these "affordable" housing policies is fully realized, GSE mortgages could result in nearly 8.8 million foreclosures. So far, the fallout has led to the injection of billions of taxpayer dollars and a government takeover of Fannie Mae and Freddie Mac in September 2008 to prevent their total collapse and dissolution.”

Congressional Fiat and Nexus of Political Interests Led to Our Own Demise

“Fannie Mae and Freddie Mac had gambled on zero down payment mortgages to subprime borrowers with assurances that the unprecedented risk would be absorbed by the U.S. taxpayers in the end. A trifecta of irresponsible congressional mandates, ill-advised executive policies, and illusory market confidence provided both the rationale and the capital for dangerous leveraging and overexposure. Quite simply, a nexus of "affordable" housing mortgage lenders, the homebuilding industry, and major investment firms created a powerful "affordable" housing coalition led by Fannie Mae, Freddie Mac, and their political allies in Washington, D.C. This group used its money and power to buy influence on Capitol Hill. Between 1998 and 2008, Freddie Mac and Fannie Mae spent as much as \$176 million on lobbying efforts to block legislative reform that would have stripped them of their preferential advantages.”

Americans Who Needed Help the Most Hit Hardest by Foreclosures

“The real tragedy of the government's affordable housing policy is its impact on average Americans, particularly those of modest means. Millions of these borrowers, who were supposedly helped by federal affordable housing policies, have now been forced into delinquency and foreclosure, destroying their asset base, their credit, and in some cases, their families...According to the Pew Hispanic Center, nearly one in ten Latino homeowners said they had missed a mortgage payment or were unable to make a full payment, and three percent said they have received a fore-closure notice in the past year. At the same time, sixty-two percent of Latino homeowners said there have been foreclosures in their neighborhoods, and thirty-six percent say they are worried about their own homes going into foreclosure.”

Failure to Address Fannie-Freddie will Result in Deeper Crisis and Turmoil

“The consequences of these policies brought the entire global financial system to the brink of collapse, destroying trillions in equity and disrupting untold numbers of lives. It is essential to reexamine the borrow and spend, high-leverage policies that became prevalent in the mortgage market as a result of well-intentioned but reckless decisions made by elected officials. Without a return to fiscal discipline and prudent, responsible housing policies, we will continue to make the same mistakes that led to the current financial crisis.”